R 221217Z JUN 09
FM AMEMBASSY BAMAKO
TO SECSTATE WASHDC 0483
INFO ECOWAS COLLECTIVE

UNCLAS BAMAKO 000405

E.O. 12958: N/A
TAGS: ECON EAID ETRD ML
SUBJECT: Mali Telecoms Company Privatization In Limbo

REF: 09 BAMAKO 349

¶1. Summary: The long-awaited privatization of Mali's telecommunications company, Sotelma, seemed nearly complete in February when the Malian government announced that Maroc Telecom was the highest bidder. Since then, the process has been at a standstill. The Malian government claims that the CFA 165 billion (USD 352 million) offered by Maroc Telecom falls far short of the CFA 200 billion (USD 425 million) at which the GOM assesses Sotelma. Although the 60-day statutory period for negotiation of the deal has expired, discussions between the GOM and Maroc Telecom continue as both parties have significant interests in reaching an agreement. The investment by Maroc Telecom is one of a number of recent investments by Moroccan firms seeking to expand their presence in the region. End summary.

Restructuring the Telecoms Sector

¶2. Mali's telecoms sector received an overhaul in 1999 when the GOM loosened its investment laws and began privatizing the existing parastal company, Sotelma. In 2002, the French owned company Ikatel, subsequently renamed Orange Mali, dramatically increased telephone phone coverage from a few hundred lines in 2002 to more than two million in 2008. In 2004, the GOM adopted a road map for privatizing Sotelma, which allocated 51 percent of the stock to be held by a strategic partner, 19 percent by a domestic private investor, 10 percent by Sotelma workers and 20 percent by the Malian government. Sotelma owns 90,000 land lines and 4080 internet lines, while its mobile phone subsidiary, Malitel, has 672,000 lines. In total, the company's turnover is USD 150 million per year.

¶3. The London-based bank Linkstone Capital was designated in 2007 by the GOM as the financial advisor to the privatization. In July 2008, the GOM organized an investors' conference in Paris, after which 18 companies, including Maroc telecom, Sudatel, Portugal Telecom, Telecel Globe, Vodacom, Zain, MTN, Orascom, were pre-qualified to submit a bid. After the screening of the technical and financial offers in, the GOM announced on February 28 that Maroc Telecom had submitted the winning bid with its offer of CFA 165 billion (USD 352 million). The next highest offers were given by the Sudanese Sudatel and Portugal Telecom, offering USD 155 and 123 million respectively.

The Deal Falls Through...

¶4. Despite the announcement that a successful bidder had been found, the deal seemed to have fallen through in May when the Malian government increased its asking price. By law, the GOM and Maroc Telecom had 60 days to finalize the sale. The GOM requested that Maroc Telecom raise its bid from USD 352 million to USD 425 million in order to placate Sotelma's unionized workers. The additional USD 73 million was to be applied toward severance payments for the more than 600 employees - roughly 50 percent of a workforce of 1,380. The 60 day period ended without agreement, in spite of the GOM's argument that it would be more costly for Maroc Telecom to assume those liabilities on its own.

¶5. The telecoms workers union continued to increase pressure on the GOM and on union members to reach a deal. In a May 27 meeting of the National Telecommunications Union (Syntel) Sotelma branch, Secretary General of Syntel Youssouf Sangar seemed to warn the assembly about the failure to reach an agreement. Sangar cautioned

that further delays in the privatization would result in the postponement of the early retirement program, putting a burden on the company's finances and affecting salaries. Delays would also increase Sotelma's liabilities as the maintenance of existing equipment and investment in new equipment remained on hold.

...But May Be Salvaged Yet

¶6. On June 12, Acting Director of the Telecommunications Regulatory Committee (CRT) Moctar Traor, told the Embassy that the Malian government continued to pursue an agreement with Maroc Telecom. The GOM was eager to conclude the privatization so that Sotelma, with this new capital investment, could begin to upgrade its infrastructure in order to improve and expand service. An agreement with Maroc Telecom would also settle the onerous negotiations with Syntel over workers' compensation. But the timely success of the agreement holds higher stakes for the Malian economy, which would benefit from the significant revenue from the sale. In mid-May, the International Monetary Fund (IMF) conducted a review of Mali's Poverty Reduction and Growth Facility, delivering a positive assessment of macroeconomic stability for 2009 (reftel). In the forecast, IMF African Department Deputy Division Chief Xavier Maret predicted that the capital received from Sotelma's privatization would improve Mali's balance of payments in 2009.

Comment: Growing Moroccan Investment

¶7. Maroc Telecom's bid is higher than that of its two rivals put together, suggesting this may be the Malian government's best chance to privatize the parastatal, whose liabilities will only increase with time. There is thus little chance that the Malian government would turn to Sudatel or Portugal Telecom to negotiate a deal should this one fall through. With pressure from Syntel and strong competition from Orange Mali, the government has ample motivation to reach an agreement. Maroc Telecom's high bid is also evidence of Morocco's vigorous investment in the region. Through previous privatizations, two Moroccan banks, BMCE and Attjariwafa Bank, acquired significant shares in Banque de Development du Mali (BDM) and Banque Internationale pour le Mali (BIM). End comment.

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